



0000100024

MEMORANDUM

ORIGINAL

TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: June 26, 2009

RE: STAFF REPORT FOR VALENCIA WATER COMPANY'S APPLICATION
FOR FINANCING APPROVAL IN CONNECTION WITH THE AMERICAN
RECOVERY AND REINVESTMENT ACT OF 2009 (DOCKET NO. W-
01212A-09-0189)

Attached is the Staff Report for the Company's application for authority to borrow funds from the Water Infrastructure Finance Authority of Arizona. Staff recommends approval.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before July 2, 2009.

EGJ:JCM:red

Originator: Juan C. Manrique

Attachment: Original and thirteen copies

Arizona Corporation Commission

DOCKETED

JUN 26 2009

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2009 JUN 26 A 8:50
AZ CORP COMMISSION
DOCKET CONTROL

Service List for: Valencia Water Company
Docket No. W-01212A-09-0189

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

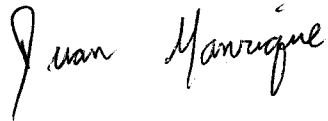
**VALENCIA WATER COMPANY
DOCKET NO. W-01212A-09-0189**

**APPLICATION TO FOR FINANCING APPROVAL
IN CONNECTION WITH THE AMERICAN RECOVERY
AND REINVESTMENT ACT OF 2009**


JUNE 26, 2009

STAFF ACKNOWLEDGMENT

The Staff Report for Valencia Water Company, Docket No. W-01212A-09-0189 is the responsibility of the Staff members listed below. Juan C. Manrique is responsible for the financial analysis. Katrin Stukov is responsible for the engineering review.

A handwritten signature in cursive script that reads "Juan Manrique".

JUAN C. MANRIQUE
PUBLIC UTILITIES ANALYST I

A handwritten signature in cursive script that reads "Katrin Stukov".

KATRIN STUKOV
UTILITIES ENGINEER – WATER/WASTEWATER

**EXECUTIVE SUMMARY
VALENCIA WATER COMPANY
DOCKET NO. W-01212A-09-0189**

On April 20, 2009, Valencia Water Company ("Valencia" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to execute a loan agreement with the Water Infrastructure Finance Authority of Arizona ("WIFA").

The U.S. Congress enacted the American Recovery and Reinvestment Act of 2009 ("ARRA") on February 17, 2009. WIFA's *Supplemental 2009 ARRA Intended Use Plan* asserts that projects that receive ARRA funds will need to be capable of moving forward rapidly; hence, expedited regulatory consideration is appropriate.

The Company is a for-profit Class "B" Arizona public service corporation that operates a water utility in portions of Maricopa County, Arizona. The Company seeks a \$2,562,500 WIFA loan. However, the Company anticipates receiving \$1,025,000, or 40 percent of the loan amount, as forgivable principal reducing the repayable indebtedness to \$1,537,500. A 20-year amortizing loan at approximately 6.0 percent per annum is anticipated. The purpose of the loan is to fund a SCADA system and capital improvements to the Company's Evergreen Well No. 2 site. The Company also requests that the Commission issue an Order "Authorizing Valencia to have at any one time outstanding in 2009 or thereafter, long-term indebtedness (including current maturities thereof) in an aggregate principal amount of \$2,562,500; permitting through such authorization any redemptions, refinancings, refundings, renewals, reissuances and rollovers of any such outstanding indebtedness, as well as the incurrence or issuance of any additional long-term indebtedness, and the amendment or revision of any terms or provisions of or relating to any long-term indebtedness, so long as total long-term indebtedness at any one time outstanding does not exceed" \$2,562,500.

As of December 31, 2008, Valencia's capital structure consisted of 0.6 percent short-term debt, 11.9 percent long-term debt, and 87.6 percent equity. Staff calculated a pro forma capital structure reflecting issuance of a \$2,562,500, 20-year amortizing loan at 6.0 percent per annum, and it is composed of 0.8 percent short-term debt, 21.4 percent long-term debt and 77.8 percent equity. Staff also calculated a pro forma debt service coverage ("DSC") ratio of 2.63. The DSC results show that cash flow from operations is sufficient to cover all obligations including WIFA's requirement to fund a "Debt Service Reserve Fund" equal to 20 percent of debt service.

Staff concludes that the Company's proposed capital projects are appropriate and that the related cost estimates are reasonable. Staff makes no "used and useful" determination of the proposed improvements or any conclusions for rate base or ratemaking purposes.

Staff further concludes that issuance of the proposed debt financing for the purposes stated in the application is within Valencia's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends authorization to incur an 18-to-22 year amortizing loan in an amount not to exceed \$2,562,500 pursuant to a loan agreement with WIFA that provides for 40 percent of the principal amount to become forgiven upon compliance with the American Recovery and Reinvestment Act of 2009.

Staff further recommends that the Commission authorize Valencia to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and R18-15-104 in connection with the WIFA loan.

Staff further recommends that Valencia use best efforts and act in good faith to comply with all the requirements of the American Recovery and Reinvestment Act of 2009 and all requirements of WIFA in order to obtain the 40 percent of forgivable principal.

Staff further recommends that the Commission take the regulatory measures it deems appropriate due to any detrimental consequences to ratepayers that may result from Valencia's failure to use best efforts and act in good faith to comply with the American Recovery and Reinvestment Act of 2009 that results in a reduction in the amount of the loan that would otherwise qualify as forgivable principal.

Staff further recommends that the Commission deny the Company's request for authorization to use various forms of refinancing so long as total long-term indebtedness at any one time outstanding does not exceed \$2,562,500 in 2009 or thereafter.

Staff further recommends that any authorization to incur debt granted in this proceeding terminate on December 31, 2012.

Staff further recommends authorizing Valencia to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that Valencia file with Docket Control, as a compliance item in this matter, a copy of the loan documents within 60 days of the execution of any financing transaction authorized herein.

Staff further recommends that the Company file as a compliance item in this docket by May 31, 2010, a copy of the Arizona Department of Environmental Quality Certificate of Approval of Construction for equipping the existing Evergreen Well No.2 (ADWR Well #55-203650).

Staff further recommends that the Company file as a compliance item in this docket by May 31, 2010, a copy of the WIFA Completion Certification for the Valencia SCADA project.

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INTRODUCTION

On April 20, 2009, Valencia Water Company ("Valencia" or "Company"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization to execute a loan agreement with the Water Infrastructure Finance Authority of Arizona ("WIFA").

PUBLIC NOTICE

On May 18, 2009, the Applicant filed an affidavit of publication verifying public notice of its financing application. The Applicant published notice of its financing application in the *West Valley View* on May 12, 2009. The *West Valley View* is a newspaper of general circulation in Avondale, Buckeye, Goodyear, Litchfield Park and Tolleson, County of Maricopa, State of Arizona published every Tuesday and Friday. The affidavit of publication is attached along with a copy of the Notice.

BACKGROUND

The U.S. Congress enacted the American Recovery and Reinvestment Act of 2009 ("ARRA") on February 17, 2009. WIFA's *Supplemental 2009 ARRA Intended Use Plan* shows that ARRA authorizes it to provide an additional subsidy on loans. In addition, the *Supplemental 2009 ARRA Intended Use Plan* asserts that projects that receive ARRA funds will need to be capable of moving forward rapidly; hence, expedited regulatory consideration is appropriate.

Valencia is a for-profit Class "B" Arizona public service corporation located in Phoenix, Arizona. The Company operates a water utility in portions of Maricopa County, Arizona.

COMPLIANCE

A check of the Compliance Database indicates that there are currently no delinquencies for Valencia Water Company, Inc.

PURPOSE AND DESCRIPTION OF THE REQUESTED FINANCING

The purpose of Company's request for the WIFA loan is to fund a SCADA system and capital improvements to the Company's Evergreen Well No. 2 site.

The Company requests that the Commission authorize it to secure financing in an amount not to exceed \$2,562,500 from WIFA. However, due to an anticipated \$1,025,000, or 40 percent of the loan amount, as forgivable principal, the expected repayable indebtedness is \$1,537,500. Company expects a 20-year amortizing loan at 6.0 percent per annum. The current base interest rate on a WIFA loan is 6.0 percent. The base interest rate is calculated by using the current prime rate of 3.25 percent plus 2.75 percent.

WIFA rule R18-15-104 requires borrowers to pledge their assets when borrowing funds from WIFA. A.R.S. § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets.

The Company also requests that the Commission issue an Order "Authorizing Valencia to have at any one time outstanding in 2009 or thereafter, long-term indebtedness (including current maturities thereof) in an aggregate principal amount of \$2,562,500; permitting through such authorization any redemptions, refinancings, refundings, renewals, reissuances and rollovers of any such outstanding indebtedness, as well as the incurrence or issuance of any additional long-term indebtedness, and the amendment or revision of any terms or provisions of or relating to any long-term indebtedness, so long as total long-term indebtedness at any one time outstanding does not exceed" \$2,562,500.

ENGINEERING ANALYSIS

The Staff Engineering Memorandum is attached. Staff reviewed the Company's proposed capital improvements and concludes that the two proposed capital improvement projects are appropriate and cost estimates totaling \$2,562,500 are reasonable. No "used and useful" determination of the proposed projects was made and no particular treatment should be inferred for future ratemaking or rate base purposes.

FINANCIAL ANALYSIS

Staff's analysis is illustrated on Schedule JCM-1. Column [A] reflects The Company's historical financial information for the year ended December 31, 2008. Column [C] presents pro forma financial information that modifies Column [A] to reflect a 20-year, \$2,562,500 amortizing loan at 6.0 percent per annum.

DSC

Debt service coverage ratio ("DSC") represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that cash flow from operations is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

Schedule JCM-1, Column [A] shows that for the year ended December 31, 2008, the Company's DSC was 4.49, respectively. The pro forma DSC for the Company under the scenario described above for Column [C] is 2.63.

Capital Structure

At December 31, 2008, the Company's capital structure consisted of 0.6 percent short-term debt, 11.9 percent long-term debt, and 87.6 percent equity (Schedule JCM-1, Column [A],

lines 20-26). Staff calculated a pro forma capital structure reflecting issuance of a \$2,562,500, 20-year amortizing loan at 6.0 percent per annum, and it is composed of 0.8 percent short-term debt, 21.4 percent long-term debt and 77.8 percent equity (Schedule JCM-1, Column [C], lines 20-26).

Capital Structure inclusive of AIAC and CIAC

As of December 31, 2008, the Company's capital structure, inclusive of Advances-In-Aid-of-Construction ("AIAC") and Net Contributions-In-Aid-of-Construction ("CIAC")¹ consisted of 0.2 percent short-term debt, 4.0 percent long-term debt, 29.7 percent equity, 64.2 percent AIAC and 1.9 percent CIAC (Schedule JCM-1, Column [A], lines 31-41).

Encumbrance

Arizona Administrative Code ("A.A.C.") R18-15-104 requires WIFA borrowers to pledge their revenue sources to repay the financial assistance. A.R.S. § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. The statute serves to protect captive customers from a utility's act to dispose of any of its assets that are necessary for the provision of service, thus, it serves to preempt any service impairment due to disposal of assets essential for providing service. Pledging assets as security typically provides benefits to the borrower in the way of increased access to capital funds or preferable interest rates, and it is often an unavoidable condition for procurement of funds for small or financially stressed entities.

Refinancing

The Company requests authorization to use various forms of refinancing so long as total long-term indebtedness at any one time outstanding does not exceed \$2,562,500 in 2009 or thereafter. If this request is granted, the Commission will relinquish some control over the Company's use of debt proceeds and capital structure maintenance. Oversight of debt issuance provides ratepayer protections from the detrimental consequences of excessive leverage and misuse of funds. Blanket refinancing authorizations circumvent these protections, and they should be granted sparingly subsequent to a thorough vetting to ensure that the benefits outweigh the potential detriments. The Company's application makes no demonstration to justify its request in this case.

CONCLUSION AND RECOMMENDATIONS

Staff concludes that the Company's proposed capital projects are appropriate and that the related cost estimates are reasonable. Staff makes no "used and useful" determination of the proposed improvements or any conclusions for ratemaking or rate base purposes.

¹ Contributions in Aid of Construction less Accumulated Amortization of Contributions in Aid of Construction.

Staff further concludes that issuance of the proposed debt financing for the purposes stated in the application is within Valencia's corporate powers, is compatible with the public interest, is consistent with sound financial practices and will not impair its ability to provide services.

Staff recommends authorization to incur an 18-to-22 year amortizing loan in an amount not to exceed \$2,562,500 pursuant to a loan agreement with WIFA that provides for 40 percent of the principal amount to become forgiven upon compliance with the American Recovery and Reinvestment Act of 2009.

Staff further recommends that the Commission authorize Valencia to pledge its assets in the State of Arizona pursuant to A.R.S. § 40-285 and R18-15-104 in connection with the WIFA loan.

Staff further recommends that Valencia use best efforts and act in good faith to comply with all the requirements of the American Recovery and Reinvestment Act of 2009 and all requirements of WIFA in order to obtain the 40 percent of forgivable principal.

Staff further recommends that the Commission take the regulatory measures it deems appropriate due to any detrimental consequences to ratepayers that may result from Valencia's failure to use best efforts and act in good faith to comply with the American Recovery and Reinvestment Act of 2009 that results in a reduction in the amount of the loan that would otherwise qualify as forgivable principal.

Staff further recommends that the Commission deny the Company's request for authorization to use various forms of refinancing so long as total long-term indebtedness at any one time outstanding does not exceed \$2,562,500 in 2009 or thereafter.

Staff further recommends that any authorization to incur debt granted in this proceeding terminate on December 31, 2012.

Staff further recommends authorizing Valencia to engage in any transaction and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that Valencia file with Docket Control, as a compliance item in this matter, a copy of the loan documents within 60 days of the execution of any financing transaction authorized herein.

Staff further recommends that the Company file as a compliance item in this docket by May 31, 2010, a copy of the Arizona Department of Environmental Quality Certificate of Approval of Construction for equipping the existing Evergreen Well No.2 (ADWR Well #55-203650).

Staff further recommends that the Company file as a compliance item in this docket by May 31, 2010, a copy of the WIFA Completion Certification for the Valencia SCADA project.

FINANCIAL ANALYSIS

	<u>[A]¹</u> <u>12/31/2008</u>		<u>[B]²</u> <u>Pro forma</u>		<u>[C]³</u> <u>Pro forma</u>	
1 Operating Income	\$22,012		\$22,012		\$22,012	
2 Depreciation & Amort.	\$1,235,009		\$1,235,009		\$1,235,009	
3 Income Tax Expense	\$69,788		\$69,788		\$69,788	
4						
5 Interest Expense	\$157,314		\$258,657		\$319,413	
6 Repayment of Principal	\$138,237		\$158,447		\$185,812	
7						
8						
9						
10						
11						
12 DSC						
13 [1+2+3] ÷ [5+6]	4.49		3.18		2.63	
14						
15						
16						
17						
18 Capital Structure						
19						
20 Short-term Debt	\$285,281	1.4%	\$326,329	1.5%	\$353,695	1.5%
21						
22 Long-term Debt	\$2,432,277	11.8%	\$3,928,729	17.7%	\$4,926,363	21.2%
23						
24 Common Equity	\$17,939,393	86.8%	\$17,939,393	80.8%	\$17,939,393	77.3%
25						
26 Total Capital	\$20,656,951	100.0%	\$22,194,451	100.0%	\$23,219,451	100.0%
27						
28						
29 Capital Structure (inclusive of AIAC and Net CIAC)						
30						
31 Short-term Debt	\$285,281	0.5%	\$326,329	0.5%	\$353,695	0.6%
32						
33 Long-term Debt	\$2,432,277	4.0%	\$3,928,729	6.3%	\$4,926,363	7.8%
34						
35 Common Equity	\$17,939,393	29.6%	\$17,939,393	28.9%	\$17,939,393	28.4%
36						
37 Advances in Aid of Construction ("AIAC")	\$38,740,336	64.0%	\$38,740,336	62.4%	\$38,740,336	61.4%
38						
39 Contributions in Aid of Construction ("CIAC") ⁴	\$1,128,521	1.9%	\$1,128,521	1.8%	\$1,128,521	1.8%
40						
41 Total Capital (Inclusive of AIAC and CIAC)	\$60,525,808	100.0%	\$62,063,308	100.0%	\$63,088,308	100.0%
42						
43 AIAC and CIAC Funding Ratio⁵	65.9%		64.2%		63.2%	
44 (36+38)/(40)						
45						
46						

¹ Column [A] is based on the Company's Financial Statements for the year ended December 31, 2008.

² Column [B] is Column [A] modified to reflect issuance of the proposed \$1.5375 million debt financing amortized for 20 years at 6 percent (after principal forgiveness).

³ Column [C] is Column [A] modified to reflect issuance of the proposed \$2.5625 million debt financing amortized for 20 years at 6 percent

⁴ Net CIAC balance (i.e., less: accumulated amortization of contributions).

⁵ Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities.

MEMORANDUM

DATE: May 6, 2009

TO: Juan Manrique
Public Utilities Analyst

FROM: Katrin Stukov *KS*
Utilities Engineer

RE: Valencia Water Company
Financing Application
Docket No. W-01212A-09-0189

Introduction

Valencia Water Company ("Company" or "Valencia") has filed a financing application with the Arizona Corporation Commission ("ACC") to assist in funding of two capital improvement projects, these two projects are estimated at a total cost of \$2,562,500. The Company is requesting approval of funding through the use of Water Infrastructure Financing Authority ("WIFA") indebtedness in conjunction with the American Recovery and Reinvestment Act ("ARRA").¹

The Company has two divisions-the Town Division and the Greater Buckeye Division, and it operates five water systems with over 6,000 connections in and around the Town of Buckeye in Maricopa County.

The first improvement project installs additional SCADA² equipment at the Company's water systems in both divisions at a cost estimate totaling \$1,862,500. The second improvement project installs well equipment at the existing Evergreen Well No.2 site, located in the Town Division. The second improvement project has a cost estimate totaling \$700,000.

¹ WIFA has advised the Company that the proposed projects will qualify for funding under ARRA.

² Supervisory Control and Data Acquisition

Water Systems

The Company's Town Division operates one public water system ("PWS") and the Greater Buckeye Division operates four systems. A listing of these systems is tabulated below:

Division	The Greater Buckeye Division				The Town Division
System Name	Sun Valley/ Sweetwater I	Sweetwater II	Bulfer / Primrose	Sonoran Ridge	Valencia / Town
PWS ID#	07-195	07-129	07-114	07-732	07-078
Number of connections ³	408	95	92	58	5,438

The Town Division

Based on the Water Use Data submitted with the rate application (Docket No. 09-0077), the Company's Town Division water system has 9 active wells with total pumping capacity of over 3,700 gallon per minute ("GPM"), 6 arsenic treatment systems ("ATS"), 12 storage tanks with total storage capacity of 2,645,000 gallons, hydro-pneumatic systems and a distribution system serving over 5,400 connections.

Capital improvement projects and Costs

1. SCADA System

SCADA systems are designed to allow for a centralized automated remote operational control. By allowing equipment to be operated more efficiently, SCADA systems can reduce power usage, operator's labor, data collection and travel requirements. This will allow the utility to minimize operating costs and outages and maximize efficiency. The Company indicated that it has deployed SCADA to several plant facilities⁴ within Valencia's water system. This project will deploy SCADA to other plant facilities.

The Company submitted an estimate with project descriptions and breakdown of costs as follows:

³ Per Company's Water Use Data in its pending rate application (Docket No. 09-0077)

⁴ Including production, treatment, storage and booster facilities

Planning	
Evaluation of Needed Components	\$ 20,000.00
Due Diligence of Equipment	\$ 30,000.00
Radio & Communications Planning	\$ 25,000.00
Design & Engineering	
Electrical Design	\$ 45,000.00
Development of SCADA Standards	\$ 500,000.00
Equipment / Materials	
The Greater Buckeye Division Sites	
Bulfer /Primrose (PWS# 07-114)	\$ 50,413.19
Sonoran Ridge (PWS# 07-732)	\$ 25,000.00
Sun Valley Ranches (PWS# 07-195)	\$ 99,213.41
The Town Division (PWS#07-078)	
Miller Inline BPS	\$ 56,093.04
Lower Buckeye & Apache	\$ 88,656.23
Bales	\$ 100,000.00
Westpark	\$ 80,624.13
Construction & Installation	
The Greater Buckeye Division Sites	
Bulfer /Primrose (PWS# 07-114)	\$ 64,162.24
Sonoran Ridge (PWS# 07-732)	\$ 25,000.00
Sun Valley Ranches (PWS# 07-195)	\$ 126,271.62
The Town Division Sites (PWS#07-078)	
Miller Inline BPS	\$ 71,391.14
Lower Buckeye & Apache	\$ 112,835.20
Bales	\$ 100,000.00
Westpark	\$ 142,839.80
Construction Inspection	\$ 40,000.00
Site Project Management	\$ 40,000.00
Administration	\$ 20,000.00
Total	\$ 1,862,500.00

Construction Schedule

The SCADA project commenced in June 2008. The Engineering and Planning has been completed, but the Company recently placed the project on hold due to the economic climate. If the financing is approved, the Company estimates that the SCADA project will be completed in 10 months from receipt of funding.

2. Well Equipment Project

Five of the six ATS systems serving the Company's Town Division use an adsorptive media technology in their arsenic removal processes, and only one (at the Sonoran Vista site) is a coagulation/filtration arsenic removal system. According to the Company, the use of adsorptive media systems in Valencia has resulted in significant operational inefficiencies, while the operation of the Sonoran Vista coagulation/filtration system has been more cost efficient. The Company anticipates that the proposed addition of the Evergreen Well No.2 to the Sonoran Vista ATS will reduce Valencia's reliance on inefficient adsorptive media systems, and allow for increase production at the more cost efficient Sonoran Vista ATS.

According to the Approval of Construction ("AOC")⁵ issued for the Sonoran Vista ATS, the ATS's maximum treatment capacity is 3,500 GPM. The Company reported that currently this system treats water from Valencia's 3 wells with a total production capacity of 1,725 GPM. With the addition of the 700 GPM Evergreen Well No.2, the Sonoran Vista ATS's production capacity will increase to 2,425 GPM. This will allow the utility to reduce operating costs by utilizing the Sonoran Vista ATS as the primary treatment system. The remaining adsorptive media systems will be used as back-up systems for peak production only.

The Company submitted an estimate with project descriptions and breakdown of costs as follows:

Project Development	\$ 20,000.00
Project Engineering & Design	\$ 50,000.00
Equipment & Materials	\$ 277,500.00
Construction & Installations	\$300,000.00
Construction inspection	\$ 32,500.00
Site Project Management	\$ 15,000.00
Administration	\$ 5,000.00
Total	\$ 700,000.00

Construction Schedule

The well equipment project commenced in September 2008 and was put on hold due to the economic climate. If the financing is approved, the Company estimates that this project can be mobilized in 30 days from receipt of funding and construction will be completed in 6 months.

Staff concludes that the Company's two capital improvement projects are appropriate and the cost estimates totaling \$2,562,500 are reasonable. No "used and useful" determination

⁵ Issued by the Maricopa County Environmental Services on March 5, 2008

of the proposed projects was made and no particular treatment should be inferred for future rate making or rate base purposes.

Maricopa County Environmental Services Department ("MCESD") Compliance

Compliance⁶

MCESD monitors for compliance in Maricopa County. MCESD has determined that all five Company water systems are in compliance and currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

Approval to Construct / Approval of Construction

1. SCADA project: An Approval to Construct is not required for the SCADA project. WIFA will issue a Completion Certification when the project is 95% complete.
2. Well Equipment Project: The Company has not yet obtained a Certificate of Approval to Construct for equipping the existing Evergreen Well No.2 (ADWR Well #55-203650).

Arizona Department of Water Resources ("ADWR")

The Company is located in the Phoenix Active Management Area ("AMA") and is in compliance with ADWR requirements governing water providers and/or community water systems.⁷

ACC Compliance Status

A check of the Utilities Division Compliance database indicated that there were no delinquent compliance items for the Company⁸.

Curtailment and Backflow Prevention Tariffs

The Company has approved Curtailment and Backflow Prevention tariffs on file with the ACC.

⁶ MCESD Status Reports from 2007, 2008 and 2009 were used to determine compliance.

⁷ Per ADWR Compliance Reports dated May 1, 2009

⁸ Per Compliance check on May 1, 2009

Conclusions and Recommendations

Staff concludes that the two proposed capital improvement projects are appropriate and cost estimates totaling \$2,562,500 are reasonable. No "used and useful" determination of the proposed projects was made and no particular treatment should be inferred for future rate making or rate base purposes.

Staff recommends that the Company file as a compliance item in this docket by May 31, 2010, a copy of the ADEQ Certificate of Approval of Construction for equipping the existing Evergreen Well No.2 (ADWR Well #55-203650).

Staff recommends that the Company file as a compliance item in this docket by May 31, 2010, a copy of the WIFA Completion Certification for the Valencia SCADA project.

many

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

2009 MAY 18 RECEIVED

AZ CORP COMMISSION MAY 18 2009
DOCKET CONTROL

AZ CORP COMM
Director Utilities

IN THE MATTER OF THE APPLICATION OF
VALENCIA WATER COMPANY - TOWN
DIVISION AND VALENCIA WATER
COMPANY - GREATER BUCKEYE DIVISION,
FOR FINANCING APPROVAL IN
CONNECTION WITH THE AMERICAN
RECOVERY AND REINVESTMENT ACT OF
2009.

DOCKET NO.: W-01212A-09-0189

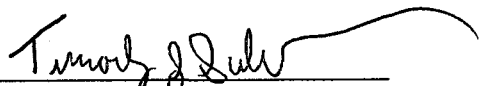
NOTICE OF FILING

Valencia Water Company - Greater Buckeye Division files the Affidavit of Publication
showing that public notice of the application in this docket has been given.

RESPECTFULLY SUBMITTED this 18th day of May 2009

ROSHKA, DEWULF & PATTEN

By



Michael W. Patten

Timothy J. Sabo

One Arizona Center

400 East Van Buren Street, Suite 800

Phoenix, AZ 85004

Original and 13 copies of the foregoing
filed this 18th day of May 2009 with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, AZ 85007

1 Copy of the foregoing hand-delivered/mailed
2 This 18th day of May 2009 to:

3 Lyn Farmer, Esq.
4 Chief Administrative Law Judge
5 Hearing Division
6 ARIZONA CORPORATION COMMISSION
7 1200 West Washington Street
8 Phoenix, AZ 85007

9 Janice Alward, Esq.
10 Chief Counsel, Legal Division
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WEST VALLEY BUSINESS

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AFFIDAVIT OF PUBLICATION

State of Arizona

County of Maricopa

I, Elliott Freireich, publisher of West Valley View and West Valley Business, newspapers of general circulation in Avondale, Buckeye, Goodyear, Litchfield Park and Tolleson, Arizona, attest that the legal advertisement for

Valencia Water Company
Public Notice - An Application for an order
No. W-012124-09-0189

Authorizing the issuance of \$2,562,500 long
term debt by Valencia Water Company - Town Division
and Valencia Water Company - Greater Buckeye Division
will be / has been published on May 12, 2009.

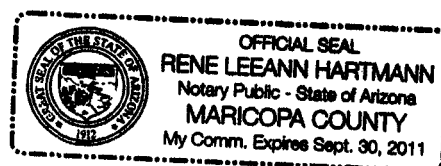
Elliott Freireich
Elliott Freireich
President, West Valley View Inc.

May 12, 2009.
Date

SUBSCRIBED AND SWORN TO BEFORE ME ON THE

12 DAY OF May (Month), 2009 (YEAR)

NOTARY SIGNATURE: Rene Leeann Hartmann



PUBLIC NOTICE
OF
AN APPLICATION FOR AN ORDER

AUTHORIZING THE ISSUANCE OF \$2,562,500 long-term debt by Valencia Water Company – Town Division and Valencia Water Company – Greater Buckeye Division.

Valencia Water Company (“Company”) filed an Application on April 20, 2009, with the Arizona Corporation Commission (“Commission”) for an order authorizing Applicant to issue \$2,562,500 of long-term debt in order to finance the construction of water system facilities. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, Tucson, Arizona and the Company’s offices at 21410 North 19th Avenue, Suite 201, Phoenix, AZ 85004. The Application has been assigned Docket No. W-01212A-09-0189.

Intervention in the Commission’s proceedings on the Application shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon the Company and which, at a minimum, shall contain the following information:

1. The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor’s interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice.